

Japan P&I Club

Annual Report 2015



The Japan Ship Owners' Mutual Protection & Indemnity Association

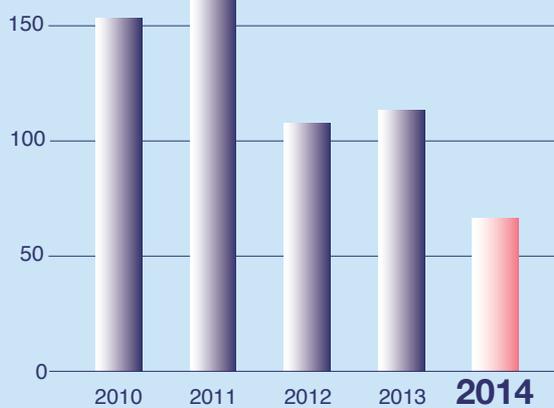
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Claims Paid claims and reserve funds within our retention

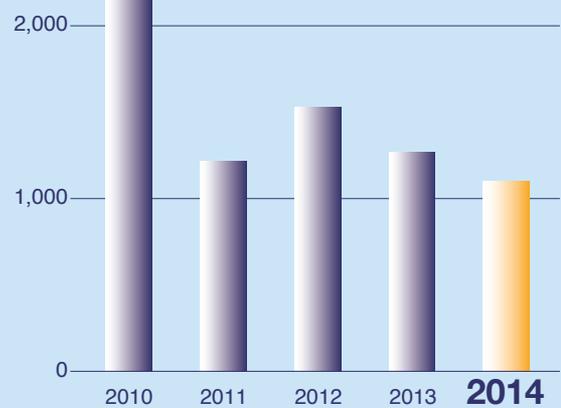
Ocean-going vessels

(US\$000,000)



Naiko Class

(JPY Millions)



**JPI's
CHANGE**
2012~2014

**JPI's
CHANGE
Phase II**

2015~2017

¥14,800M
(as of 31 March 2013)

¥16,000M
(as of 31 March 2014)

Reserves
¥20,700M
(as of 31 March 2015)

**Average
Expense Ratio
(AER)**
5.25%

S&P Rating
BBB+
Outlook: Stable
(Published on 30 July 2015)

Entered Tonnage
93.4M
gross tons

Greetings from Chairman of the Association



Junichiro Ikeda,
Chairman

I am Junichiro IKEDA, the Chairman of the Association, as elected at the Ordinary General Meeting of Members of the Association and the Meeting of the Board of Directors held on 13 July 2015. It is my great pleasure to welcome readers to the Association's Annual Report 2015.

For the global economy of 2014, while the recession of developing countries such as China became more pronounced, the US and European economies showed a gradual recovery. In Japan, in spite of a reaction against last-minute demand prior to an increase in the rate of consumption tax, the economy was also on the road to recovery. The situation has seemed to continue since then with help of a fall in the price of crude oil. Turning to the shipping industry, challenges remain in the business environment for ocean-going ships, such as an increase in the supply of newly-built vessels not being balanced by a demand to ship cargo in them, despite an increase in cargo movement as a whole. However, the industry did benefit from the low price of crude oil and, for Japanese business concerns, the weakened yen. As regards Naiko Class (Japanese coastal vessels, fixed premium entries), there were signs of recovery in cargo movements, too.

The P&I insurance field, which had suffered from a sharp increase in reinsurance costs due to the frequency of huge claims worldwide from the middle of 2000s, is seemingly restoring its stability. The Association experienced this positive trend as well, and was able to maintain a good loss record in both ocean-going vessels and Naiko Class in this 2014 financial year, especially as there were no pool claims. We believe that our loss prevention activity, kindly supported by our Members, has contributed in no small way to this result. Thus, although it seems that our most recent testing period might have ended, the situation is still unpredictable. From 2014 to 2015, maritime conventions have been ratified or amended one after the other; limitation of liability for ship owners was increased for the first time in ten years, and for wreck removal, ship owners became required to arrange the insurance which satisfies Convention requirements on liability. The higher the risk to which ship owners are exposed, the more important P&I insurance becomes.

Supported by the Members, the Association commemorates its 65th anniversary in 2015. As of the end of March 2015, we have 4,513 vessels and 93.4 million tons entered from 3,225 Members. In these 65 years, especially in the most recent decade, we have been experiencing more and more competition in the P&I market and also we have regrettably had to request Members to bear a heavy burden of reinsurance costs due to the abrupt deterioration in the loss ratio caused by the series of huge claims I mentioned earlier. We would like to express our sincere gratitude to the Members for their understanding and cooperation with the management of the Association over the years even in such a situation.

The year 2015 marks the beginning of the new three-year Medium-Term Operational Plan : "JPI's CHANGE Phase II". We are stepping up our efforts based on our management philosophy, "to protect the interests of our Members, to promote the sound development of the Association, and to contribute to a more secure and stable management of the shipping and related maritime industry by providing ship owners' liability insurance to our Members".

I would sincerely ask our Members for their continued support.

13 July 2015
Junichiro Ikeda, Chairman



Yoshikazu Minagawa,
Director General

First, I would like to express my gratitude to our Members for their understanding and good cooperation with the Association.

I am also delighted at the opportunity which publication of our Annual Report 2015 gives me to deliver my statement as Director General.

The 2014 financial year (hereafter “this year”) was my inaugural year as Director General and the final year of the Association’s three-year Medium-Term Operational Plan, entitled “JPI’s CHANGE,” and all our colleagues put on a final burst to achieve the goals set out in the Plan. The Plan is made up of three fundamental policies: “Reliability”, “Soundness” and “Competitiveness”. We worked hard to reduce claims cost, to increase our investment income, financial strength, and to grow our membership with good quality tonnage.

Taking this opportunity, I would like to review our business performance this year and to talk about JPI in future.

This year, the occurrence of claims, including large casualties, became less frequent in the world P&I insurance market, and the Association experienced the same positive trend, with our loss record thus remaining at a good level. There are several factors which have enabled us to reduce claims. I believe that one of the biggest factors is our loss prevention activities. The Association held loss prevention seminars in Japan and beyond, all given by an enthusiastic and experienced master mariner, and provided practical and useful guidance on various topics in publications issued by the Association. With these activities we hope to have gained a favourable reputation with the Members.

These loss prevention initiatives, which are pursued with the support and cooperation of the Members, have improved our loss record for both ocean-going vessels and Naiko Class. In collaboration with lawyers and experts in Japan and elsewhere, the experienced staff of the Association makes every effort to improve the quality of our claims handling and consulting services whenever an incident occurs.

Turning to the insurance premiums for the 2015 renewal, the Association asked Members for a 3% general increase for ocean-going vessels and one of 5% for TCL, although there was a nil general increase for Naiko Class vessels and FD&D entries. The Association focused on securing our competitiveness, although there remains the great challenge of improving our financial soundness. We considered loss records for each class of entry and were able to hold our general increase down to a lower amount than last year for ocean-going vessel and TCL entries.

The Association’s financial situation for this year is summarised as follows. Supported by increased investment income, reduced claims costs, the depreciation in the value of the yen, and high stock prices during this year, the Association’s “Ordinary income” has increased by JPY4,163 million from last year to a total of JPY28,373 million. Meanwhile, “Ordinary Expenses” increased by JPY273 million this year, to JPY23,146 million. As a result, the Association’s “Ordinary Surplus” was JPY5,227 million this year, an increase of JPY3,889 million from last year, and the “Net Surplus” after income taxes this year was JPY3,761 million.

Talking of the measures for financial soundness under the Association's new financial strategy, the Association aimed to seek a reserve equivalent to a year's "net premium written" of JPY18,200 million based on an exchange rate of JPY90 to the dollar. At the end of the 2014 financial year, the reserve amount climbed to a total of JPY20,714 million, which surpassed the target by JPY2,514 million. The good progress made with the new financial strategy was appreciated by Standard & Poor's, which maintained the Association's credit rating as BBB+ with a stable outlook.

The Association created a new three-year Medium-Term Operational Plan starting from the 2015 financial year titled "JPI's CHANGE Phase II," which maintains the three fundamental policies of the previous Operation Plan. Under the new Operation Plan, the Association will pursue sustainable growth of our entered tonnage by obtaining new good quality entries, recapturing vessels which have left us, strengthening our domestic business foundation and expanding overseas to target ship owners in the Asia region via our Singapore branch, which opened in 2013.

In respect of financial soundness, the Association will implement a comprehensive risk management system. Since the reserve target for JPY18,200 million has been achieved under the new financial strategy, the Association is taking the measures necessary to control the Association's entire risk portfolio in comparison with our equity capital (reserve) by using a solvency margin ratio as an index to assess the financial soundness of the Association.

In addition to covering traditional vessel-operational risks, we will explore the way to provide insurance for the various new types of risk arising from marine resources developments and so on. The Association aims to analyse and understand the needs of the Members from their point of view and to provide them with a good quality and competitive insurance service. We will devote ourselves to making the Club the No. 1 choice for the Members now and in the future.

To conclude my statement, I would ask Members to ensure that they operate their vessels with loss prevention firmly in mind, and to continue to support the Association in our growth.

13 July 2015

Yoshikazu Minagawa, Director General



Report of the General Meeting of Members/the Board of Directors

The General Meeting of Members

The 65th Ordinary General Meeting of Members was held on 13 July 2015. The main proposals approved were as follows:

- ① The accounts for the 2014 financial year
- ② Amendment to the Articles of Association
- ③ The election of the Directors and Auditors of the Association
 - As 9 of the Directors had resigned and terms of all the 3 Auditors had expired, 8 Directors and 3 Auditors were elected.

The Board of Directors

The Meetings of Board of Directors were held three times since the 586th meeting on 14 July, 2014. The main proposals approved were as follows:

587th Meeting on 3 December 2014

- ① Calls/Premiums at the renewal for 2015 Policy Year
 - For details, please see Calls/Premiums
- ② Establishment of New Gaiko Class (fixed premium entries)
- ③ Alternations to the Rules of the Association
 - Rule 6, Rule 19, Rule 20, Rule 25, Rule 35
 - Overspill Claims and Calls Rule 1
- ④ A Policy for the development of a Comprehensive Risk Management System

588th Meeting on 8 June 2015

- ① Agreement of holding the 65th Ordinary General Meeting of Members on 13 July 2015
- ② Approval of Agenda of the 65th Ordinary General Meeting of Members
- ③ Approval of New Medium-Term Operation Plan (2015 – 2017)

589th Meeting on 13 July 2015

The election of Directors representing of the Association (Chairman and Vice Chairmen)

Review of the Year

Calls / Premiums

Renewal at 20 February 2015

For ocean-going vessels (mutual entries), the loss record of the 2014 policy year was favourable with the trend of claims decreasing since the 2012 policy year. The Board, however, decided to levy a 3% increase in advance calls for the 2015 policy year, having focused on the need to maintain soundness of the Association's income and expenditure, our financial stability, and so on. The estimated supplementary call for 2015 was set at 40%.

For Naiko class (fixed premium entries), as claims have been decreasing in recent years and the 2014 policy year's loss record has been comparatively good, the Board decided to leave the basic premium rates unchanged.

Policy Years

After reviewing each policy year in respect of ocean-going vessels, the Board made the following decisions:-

2011 Policy Year

As originally estimated, a supplementary call of 40% was levied in January 2013. The Board decided to close the year without levying a further supplementary call.

2012 Policy Year

As originally estimated, a supplementary call of 40% was levied in January 2014. The 2012 policy year remains open with a nil estimate, which will be reviewed this autumn.

2013 Policy Year

As originally estimated, a supplementary call of 40% was levied in January 2015. The 2013 policy year remains open with a nil estimate, which will be reviewed this autumn.

2014 Policy Year

The original supplementary call estimate of 40% remains unchanged. This will be reviewed this autumn.

Change in General Increase / Supplementary Calls over the last 10 years

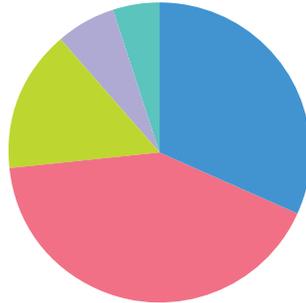
Policy Year		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
General Increase	Mutual Entries	0	10	20	12.5	12.5	10	3	5	7.5	3
	Fixed Premium Entries	0	0	0	10	0	20	0	0	0	0
Supplementary Call Mutual Entries Only		30	30	30	40	40	40	40	40	40	40
		60 closed	30 closed	30 closed	40 closed	50 closed	40 closed				

Notes for Supplementary Call Upper Line: Original Estimate Middle Line: Amount Called Lower Line: Current Estimate

Entered Tonnage

Entered Tonnage by age

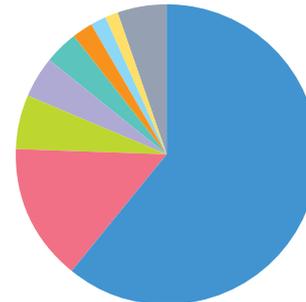
(as of commencement of the 2015 policy year)



0 ~ 4	31.81%	15 ~ 19	6.30%
5 ~ 9	41.62%	20 ~	4.88%
10 ~ 14	15.39%		

Entered Tonnage by Ship's Registry

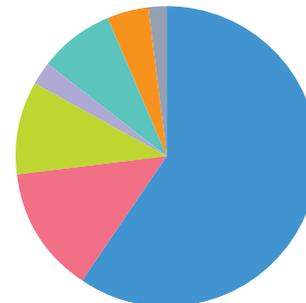
(as of commencement of the 2015 policy year)



PANAMA	60.94%	BAHAMAS	2.27%
JAPAN	14.77%	HONG KONG	1.56%
LIBERIA	5.85%	KOREA	1.41%
SINGAPORE	4.42%	OTHERS	5.20%
MARSHALL ISLANDS	3.58%		

Entered Tonnage by Type

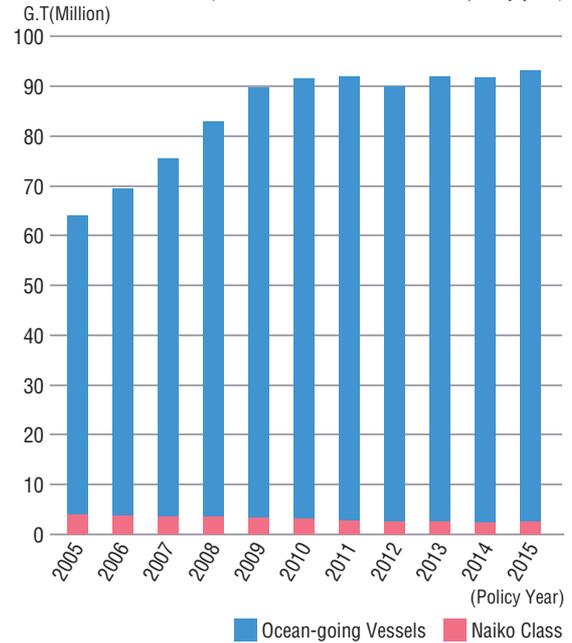
(as of commencement of the 2015 policy year)



BULK CARRIERS	59.49%	CONTAINER SHIPS	8.16%
TANKERS	13.82%	LPG, LNG TANKERS	4.51%
CAR CARRIERS	10.02%	OTHERS	1.77%
GENERAL CARGO SHIPS	2.23%		

Entered Tonnage

(as of commencement of each policy year)



In respect of ocean-going vessels, the entered tonnage has increased by 1.2 million gross tons to 90.5 million gross tons in the face of increased competition from other P&I Clubs. The entered tonnage of Naiko Class has also increased by 70 thousand gross tons to 2.6 million gross tons. The total entered tonnage has increased by 1.3 million gross tons to 93.1 million gross tons.

The total amount of Charterers' entered tonnage increased by 428 thousand tons to 11.8 million tons when compared with the figure at the time of the 2014 policy year renewal. (As of 20 February 2015)

As to the composition of the Association's entered tonnage by age, more than 70% is less than 10 years old. In the light of 60% of the world fleet being less than 10 years, it can be said that our Association is benefitting more from having younger vessels entered. The Association always seeks not only an increase in the volume of entered vessels but higher quality of vessels as well.

At the end of the 2014 financial year (31 March 2015), there were 4,513 Owners' entries comprised of 2,380 ocean-going vessels and 2,133 Naiko Class. The total amount of entered tonnage was 93.4 million gross tons, consisting of 90.8 million gross tons of ocean-going vessels and 2.6 million gross tons of Naiko Class.

Reinsurance

In recent years, shipowners' liabilities, as covered by the P&I Clubs, have continued to increase under International Maritime Conventions and regional and national legislation and regulations. In addition, due to the increasing size of vessels and growing concerns about the risk of environmental damage, losses have become larger and more expensive. Effective reinsurance arrangements play a key role in reducing the insurance risk exposure which the Association faces in carrying out its insurance business, and in providing the insurance cover necessary for Members at a stable and reasonable cost. The Association's reinsurance arrangements consist of the International Group Pool and Reinsurance Programme and the Association's own reinsurance programme.

Group Pool and Reinsurance Programme

The 2014 policy year was a benign claims year in terms of both number and amount. In particular, as of 20 February 2015, no claims had reached the Group's market reinsurance (general excess loss) attachment point of US\$80 million. On the other hand, further deterioration during the 2014 policy year of the loss amounts for the RENA and COSTA CONCORDIA, which both occurred in the 2011 policy year, continued to impact on the Group Reinsurance Programme. The IG made changes to the reinsurance programme structure for the 2015 policy year including an increase of the

Hydra share and further expansion of multi-year placements. This, combined with increased market capacity, resulted in reductions in reinsurance rates for tankers and dry cargo vessels, and no increase for passenger vessels.

The Association's own reinsurance arrangements

The Association has arranged its own reinsurance programme for Naiko Class, Charterers, FD&D and claims within the Club Retention of US\$9 million, etc, in order to achieve and maintain stable risk management. Over the last few years including the 2014 policy year, very few new claims have been made on the Association's own reinsurance, and the overall programme was therefore able to be renewed on improved terms. The loss records for some reinsurance products have still not fully recovered from previous claims years, but the Association was able to achieve a slight improvement of the renewal conditions thanks to longstanding relationships with its reinsurance partners.



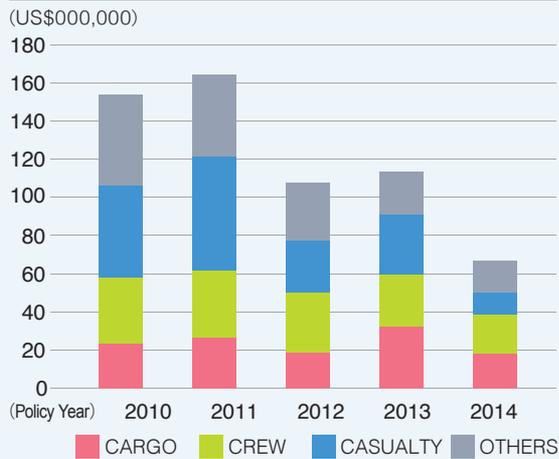
Trend of Claims

Ocean-going vessels

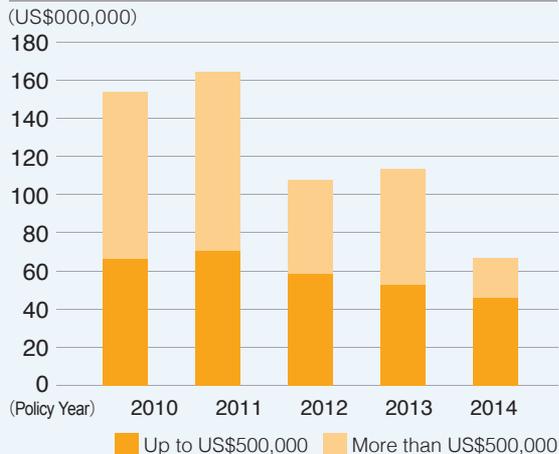
Number of claims received (as of March 2015)



Paid claims and reserve funds within our retention (as of March 2015)

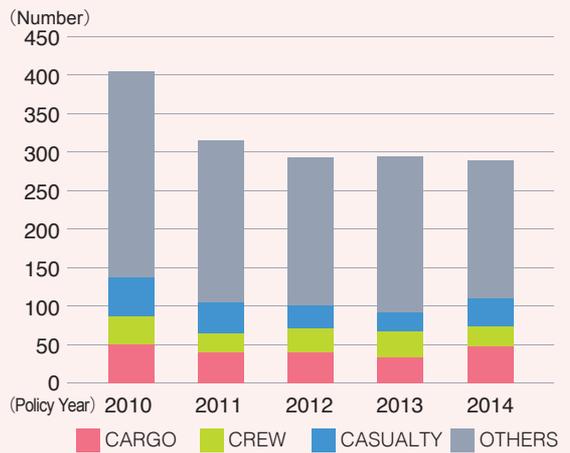


Paid claims and reserve funds within our retention according to value (as of March 2015)

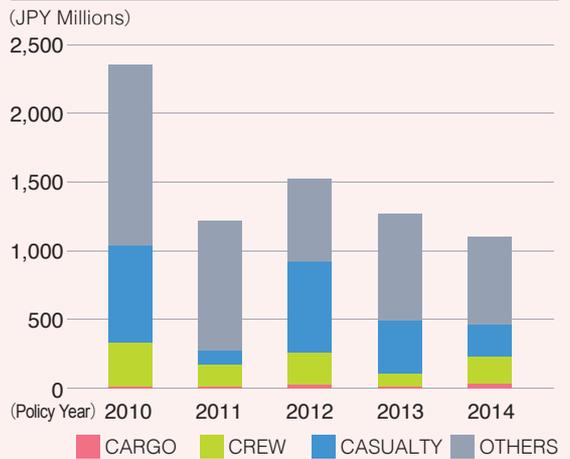


Naiko Class

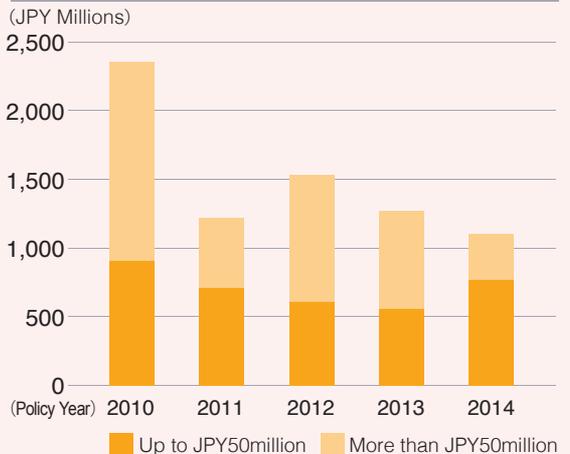
Number of claims received (as of March 2015)



Paid claims and reserve funds within our retention (as of March 2015)



Paid claims and reserve funds within our retention according to value (as of March 2015)



*Both the number of claims and total amount of paid claims and reserve funds related to claims which have been reported and do not include IBNR's(claims which have been incurred but not reported).

The number of claims has decreased since the 2010 policy year, along with the total amount of paid claims and reserve funds within our retention (Paid & Reserve). The trend continued throughout the 2014 policy year, resulting in achieving best performance in the past 5 years. While the decreasing rate in the number of claims may not seem remarkable, the Paid & Reserve statistic is significant. The improvement is due to the decline in the number of major accidents costing more than US\$500,000. While the number of marine casualties (collision, sinking, fire, stranding, oil pollution) remains the same level, the good news is that the decline in the number of major accidents can be seen, and attributable to this is the decreasing Paid & Reserve.

Ocean-going vessels

The number of claims decreased by 12% and the Paid & Reserve by 42% as compared with the 2014 policy year, while they decreased by 24% and 57% respectively compared with the 2010 policy year. The decline in the number of major accidents is a contributing factor to the significantly decreased sum of Paid & Reserve compared with the previous year. Also, the Paid & Reserve figure in marine casualties has declined by 65% compared to the 2013 policy year. The Paid & Reserve per one marine casualty could be substantial and subsequently would have driven up the sum total, but in the 2014 policy year the Association did not see a marine casualty of more than US\$4 million worth of damages.

Naiko Class

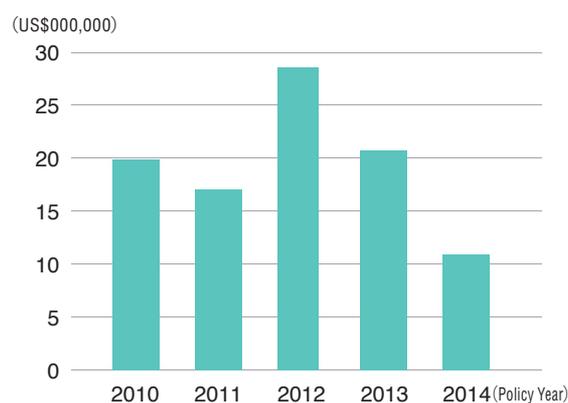
The number of claims has levelled off since the 2010 policy year, when it reached its peak, while to base upon the Paid & Reserve it shows a decreasing tendency since the 2012 policy year with decrements by 13% from a year earlier. The decreasing number of major accidents is likewise the case for Naiko Class, where in the 2014 policy year the Paid & Reserve for accidents which entailed over JPY100 million liability decreased by three quarter as compared with the 2013 policy year. On the other hand, in the 2014 policy year, the number of cargo claims and the corresponding Paid & Reserve increased significantly, with the Paid & Reserve threefold from a year earlier.

※ “Ocean-going vessels” consist of entries for vessels engaged in international navigation including “Ocean-going vessels (mutual entries),” “special cover for charterers,” “special cover for

Freight, Demurrage and Defense (FD&D)” and others. “Naiko class” consists of entries for vessels which navigate waters, lakes and rivers in Japan (fixed premium entries).”

Trend of Pool Claims

Pool Claim sum of Club’s share (as of March 2015)



The loss record for the 2013 policy year as at the end of 2014 policy year was not as high as that for the 2012 policy year. The 2014 policy year proved to be a benign year for claims reported so far. As at the end of 2014 policy year, a total of 15 claims had been notified and estimated exposure to the pool is around US\$180 million. So far, no individual claim in 2014 policy year has reached the pool limit of US\$80 million.

As shown in the above graph, the Association’s annual contribution to Pool Claims has exceeded US\$15 million in recent policy years. However the Association’s contribution in 2014 policy year is about US\$10.9 million. This is approximately one third of the amount in 2012 policy year, when the Association’s contribution reached its peak.

Loss Prevention

Loss Prevention

The Association is enhancing its loss prevention activities to contribute to the prevention not only of P&I losses but of any sort of maritime accidents. The 4 major activities are;

1. Loss Prevention Seminars : to raise safety awareness amongst our Members;
2. Claim Analysis : to try and get the full picture of what causes maritime accidents by analysing situations surrounding maritime accidents today;
3. Publication of Loss Prevention Bulletins : to provide and publish useful information to our Members;
4. Condition Surveys : to check the condition of vessels on site.

Loss Prevention Seminars

The Association has focused on the presentation of Loss Prevention Seminars by an experienced master mariner. So far in Japan, seminars have been held not only at our branch offices, i.e. Tokyo, Kobe, Fukuoka, and Imabari, but in Hakodate, Nagoya, Kure, Tokuyama, Takamatsu, Hakatajima, and Saiki as well. The activities have also been expanded abroad and seminars have been held in Korea, Hong Kong, Taiwan, Singapore and the Philippines. There has been an increasingly large turnout at every seminar so far, and in the 2014 policy year the total number of participants exceeded 1,600. The Association shall continue to attempt further refinement of our seminars and, moreover, offer special seminars upon our Members' request at occasions such as workshops or safety meetings.

Claim Analysis

In January 2014, the Association analysed the trends and causes of claims handled by our Club over the past 7 years. The analysis led to the formulation of countermeasures which can be used to reduce the incidence of these accidents. One interesting trend was that whilst the number of claims worth \$100,000 or more accounted for roughly 10% of the total claims, the insurance money paid for claims worth \$100,000 or more accounted for more than 80% of the total. This fact reinforces the importance of preventing claims costing more than \$100,000.

The Association intends to provide further information on this from our database, such as details of which ports or what kind of cargo call for special attention.

In addition, the Association has started providing an "analysis of claims of each Member". Upon request, the Association provides a Member's claim tendencies for the past few years and a comparison of the result with overall trends. By this, the strength and the areas to be reviewed for each Member can be identified, and the Association can assist loss prevention measures in more specific vision.

Percentage of Accidents



Percentage of Insurance Money



Loss Prevention Bulletins

Loss Prevention Bulletins focus on issues that are of the utmost concern in recent years and are a way of preventing accidents or mitigating any damage caused. During the 2014 Policy year, the Association published Bulletins on 5 themes including Bunkers, Prevention of Damage to Harbour Facilities and Large Claim Analysis. The Bulletins are relevant not only to our Members working on the shore side but to ship personnel on-board as useful measures for loss prevention. Bulletins are available on our website for review and to download. We should be much obliged if Members would send the bulletins to vessels and use them to reduce the number of incidents.

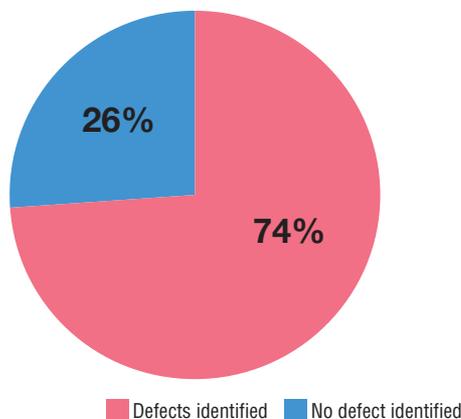
Needless to say, it not possible to achieve the prevention of maritime accidents without the co-operation of our Members; we hope to work together with our Members to further strengthen our loss prevention activities. Our Members' kind understanding would be highly appreciated.

Condition Surveys

The Association believes that Condition Surveys are an important means of checking the management condition and seaworthiness of entered vessels in order to prevent accidents and alleviate damages caused by accidents. Condition Surveys are carried out using survey forms developed with the International Group of P&I Clubs to check various aspects of the ship, including seaworthiness and management conditions, to identify risks which could lead to P&I Claims. Condition Surveys can be a tool to help superintendents and management companies with the enormous amount of daily maintenance and check-ups needed. They also assist with the enhancement of loss prevention measures. During the 2014 Policy year, the Association recommended rectification of defects in 74% of the total of 140 vessels which underwent Condition Surveys, the result of which reveals the significance of Condition Surveys.

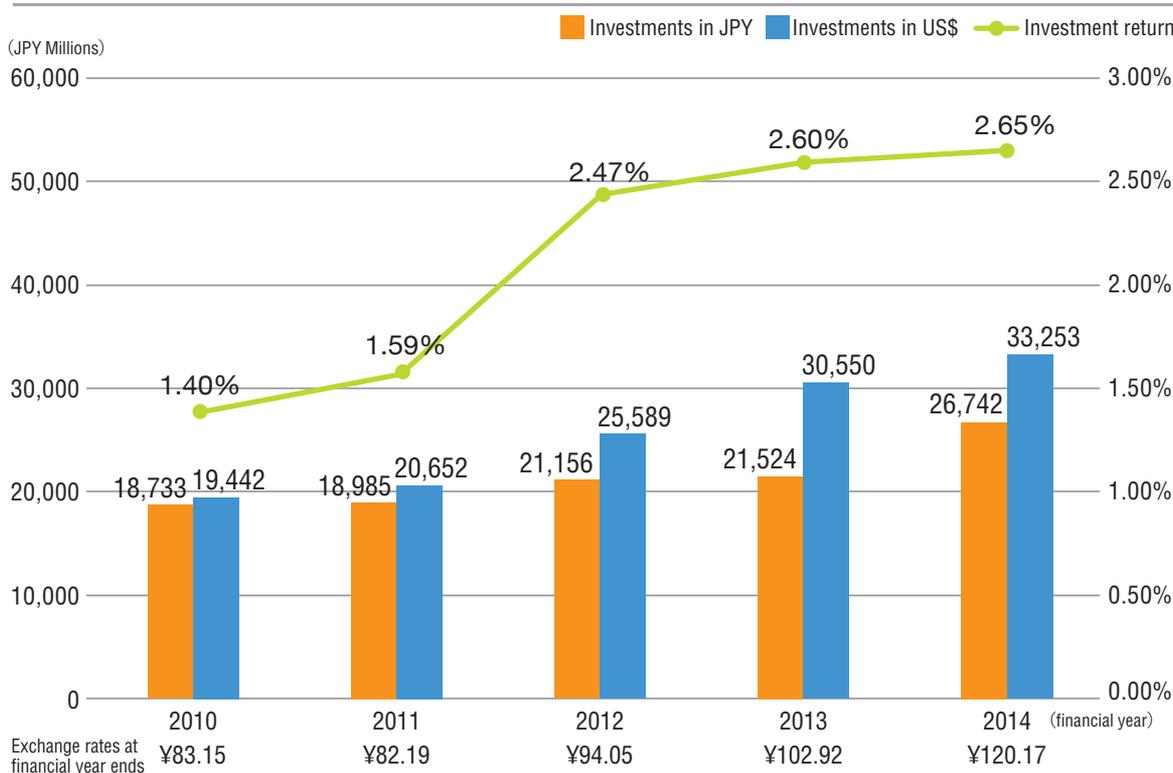
Percentage of vessels with defects

(as of commencement of the 2015 policy year)



Investments

Investments and Investment return



A sudden upsurge in demand to try and beat the incoming rise in the rate of consumption tax led to a temporary dip in the Japanese economy, which then steadied on the back of an improvement in exports and a decrease in the price of crude oil. Depreciation of JPY against US\$ continued and the benchmark Nikkei Stock Average, which was JPY14,000 at the beginning of the financial year, rose to JPY19,000. Japanese long term interest rates declined from 0.6% to 0.3% under the influence of the Bank of Japan's monetary quantitative easing policies, which it strengthened in October 2014. Long term interest rates in the USA declined from 2.7% to 1.9%.

Interest and dividends received during the year increased by JPY177 million to JPY1,275 million. The investment return improved to 2.65%, higher than the previous year.

The bond investment environment stayed severe as the long term interest rates of JPY and US\$ remained low. However, the interest income of US\$ bonds swelled as a result of the depreciation of the JPY against US\$ and mitigated the decrease in the

total interest income.

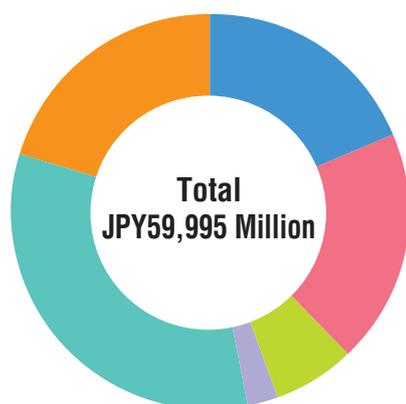
In the field of asset management excluding bonds, the value of investment trusts including domestic equities, which had been increasing since the fiscal year before last, rose significantly on the back of rising stock prices and contributed to the amount of interest income.

The total amount of financial investments held by the Association has increased by 15.2% and JPY7,921 million to JPY59,995 million. In addition, as a proportion of total assets, the level of investments has decreased by 0.5% to 89.6%. The likely reason for the increase in financial investments is the increase of the exchange rate from JPY102.19/US\$ to JPY120.17/US\$ which led to the increase in the value of assets in US\$ from JPY30,550 million (US\$296 million) to JPY33,253 million (US\$278 million).

There was no change in the basic plan for low risk investments during the 2014 financial year. However, the proportion of assets other than bonds increased due to the above rise in investment

Investments

(as of March 2015)



■ Cash and deposits: JPY	18.85%
■ Bonds: JPY	19.18%
■ Others: JPY	6.54%
■ Others: US\$	2.44%
■ Bonds: US\$	32.84%
■ Cash and deposits: US\$	20.15%

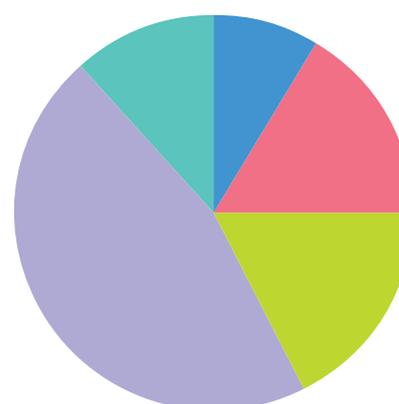
trusts including domestic equities, and additional investment in investment trusts including foreign bonds.

The Association's investments are managed in accordance with the Plan of Business Operations as approved by the Japanese Financial Services Agency. As regards asset management, the regulations require that priority is given to sound investments. As a consequence, most of the Association's investments, other than liquid deposits, are fixed-rate bonds. These include Japanese government bonds and corporate and foreign bonds generally rated "A" or higher. The Plan helps reduce the Association's risks to a minimum.

There is a risk that the Association's liabilities in foreign currencies may deteriorate as a result of currency fluctuations. As a consequence, the Association holds funds in US\$ to meet such liabilities and assist in the minimisation of any future adverse currency variations.

Maturities of securities

(as of March 2015)



■ 1 year and below	8.78%
■ 1-3 years	16.24%
■ 3-5 years	17.49%
■ 5-10 years	45.91%
■ 10 years and over	11.58%

Average Expense Ratio

The Association's average expense ratio for the five years ended 20 February 2015 was 5.25%. The ratio has been calculated in accordance with the Schedule and the guideline issued by the International Group and is consistent with the relevant Financial Statements.

International Group's (IG's) Topics

Nairobi Wreck Removal Convention

The International Convention on the Removal of Wrecks (the Nairobi Convention) entered into force on 14 April 2015. Under the Convention, ships of 300 gross tons or more registered in a State Party, or entering or leaving a port or offshore facility in the territory of a State Party, are required to have insurance or other financial security to meet the requirements of the Convention. A certificate attesting that such insurance or other financial security is in force has to be carried on board at all times. The certificate is issued by the Flag State or, if the Flag State is not party to the Convention, by a State which is party, once it is satisfied that there is insurance or other financial security in place which meets the requirements of the Convention. In order for a Flag State or a State Party to issue a Certificate, the shipowners have to submit a Blue Card issued by the Club.

The IG prepared a common agenda note for Club boards to consider, which resulted in the agreement of all Club boards to issue Blue Cards. In addition, the Group contacted each State Party to gather information on certification and provided details of State Parties to Members so that Members could obtain certificates from them without difficulty.

The Maritime Labour Convention

The Maritime Labour Convention (MLC) entered into force on 20 August 2013 and has been ratified by more than 60 States. Under the MLC, the Convention is to be kept under continuous review by a Special Tripartite Committee (STC) consisting of representatives of States, shipowners and seafarers. The first meeting of the STC was held in April 2014, and the STC agreed on a number of amendments including an extension of the financial security requirements in respect of payment of back wages and other entitlements following the abandonment of seafarers. These amendments were formally adopted by the International Labour Organisation (ILO) at their Conference in June 2014, and it is likely that the new requirements will enter into force by early 2017.

When the amendments do come into force, shipowners will be required to have financial security in place to cover the liabilities introduced by the amendments. Each Club board considered whether the Clubs should provide financial security which meets the requirements of the amended MLC, and all Club boards concluded that the Clubs would provide it. Various options for the

provision of the security are being considered by the Compulsory Insurance Subcommittee of the IG.

Large Casualty Review

The casualties of COSTA CONCORDIA and RENA, which both occurred in the 2011 policy year, brought renewed recognition of the importance of co-operation with the relevant states for effective wreck removal operations. With this in mind, the IG is trying to conclude a Memorandum of Understanding (MoU) between the IG and States. This MoU provides for not only improving co-operation and streamlining response activities following a major casualty, but mutual training and understanding of each party's respective roles. As of writing this, MoUs have been concluded with South Africa, Australia and New Zealand, and discussions with Singapore are ongoing. The IG will approach other States during the 2015 policy year.

In addition, the IG is carrying out a review of major casualties involving wreck removal so that guidance can be provided to Clubs on making their response to such casualties more effective, including controlling costs.

Report of the Independent Auditors



Independent Auditor's Report

To Mr. Yoshikazu Minagawa
 Director General, Representing Director
 The Japan Ship Owners' Mutual Protection & Indemnity Association

We have audited the accompanying financial statements of The Japan Ship Owners' Mutual Protection & Indemnity Association ("the Association"), which comprise the balance sheet as at 31 March 2015 and 2014, and the related income and expenditure accounts, statements of cash flows for the fiscal years then ended, and notes to the financial statements. The financial statements have been prepared by management of the Association in accordance with the basis set out in the Notes 1 and 2 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the basis set out in the Notes 1 and 2 to the financial statements, for determining that the basis of preparation is acceptable in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above are prepared, in all material respects, in accordance with the basis set out in the Notes 1 and 2 to the financial statements.

Basis of accounting

Without modifying our opinion, we draw attention to Notes 1 and 2 to the financial statements, which describes the basis of accounting. The financial statements are intended to be used for parties related to the Association. As a result, the financial statements may not be suitable for another purpose.

Convenience translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended 31 March 2015 are presented solely for convenience. Our audits also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1-(2) to the financial statements.

PricewaterhouseCoopers Aarata

16 July 2015

Notice to Readers:

The presentation of "Note 3 Other Notes to Financial Statements" is not required by accounting principles generally accepted in Japan, and has not been audited by the independent auditor.

PricewaterhouseCoopers Aarata

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Income and Expenditure Accounts

for the years ended 31 March 2015 and 2014

	Notes	Unit : JPY Millions		Unit : US\$000s
		2015	2014	2015 Note 1-(2)
Operating income				
Calls and premiums written	2-(3),3-(1)	¥28,919	¥26,641	\$240,652
Reinsurance premiums ceded	2-(3),3-(2)	6,640	5,791	55,257
Net premiums written	2-(3)	22,279	20,850	185,395
Change in unearned premium reserve	2-(3)	(909)	(2,173)	(7,566)
Exchange losses from underwriting activities		(59)	(36)	(492)
Interest and dividends income	2-(3),3-(3)	799	705	6,650
Gains on money trusts	2-(3)	459	226	3,818
Profit on sales of securities		17	167	144
Foreign currency exchange gains from investing activities		3,944	2,012	32,816
Other ordinary income	2-(16)	653	43	5,435
Total operating income		27,183	21,794	226,200
Operating costs and expenses				
Claims paid	2-(3),3-(4)	22,543	19,311	187,595
Reinsurance claims recovered	2-(3),3-(5)	6,471	3,348	53,852
Net claims paid	2-(3)	16,072	15,963	133,743
Change in reserve for outstanding claims	2-(3)	2,631	1,384	21,892
Change in catastrophe reserve		671	628	5,583
Operating expenses	2-(3)	2,439	2,344	20,297
Other ordinary expenses		143	138	1,191
Total operating costs and expenses		21,956	20,457	182,706
Ordinary surplus		5,227	1,337	43,494
Special losses				
Other special losses		0	0	1
Surplus before income taxes		5,227	1,337	43,493
Current income taxes	2-(4)	1,597	379	13,289
Deferred income taxes	2-(21),(22)	(131)	48	(1,091)
Total income taxes		1,466	427	12,198
Surplus after income taxes		3,761	910	31,295
Unappropriated surplus, beginning balance	2-(5)	9	9	75
Unappropriated surplus, ending balance		¥3,770	¥919	\$31,370

¥120.17=US\$1.00

The accompanying notes are an integral part of these financial statements.

Balance Sheets

as of 31 March 2015 and 2014

	Notes	Unit : JPY Millions		Unit : US\$000s
		2015	2014	2015 Note 1-(2)
Assets				
Cash and deposits at banks	2-(10),3-(6)	¥17,900	¥16,047	\$148,953
Money trusts	2-(7),(10),3-(7)	2,782	1,323	23,154
Securities	2-(6),(10),(24),3-(8)	39,314	34,705	327,154
Property, plant and equipment	2-(8),(18),(20),3-(9)	1,094	1,119	9,103
Intangible assets	2-(9),3-(10)	136	186	1,133
Other assets	2-(10),(14),3-(11)	2,943	1,637	24,493
Deferred tax assets	2-(21),(22)	2,919	2,863	24,293
Reserve for bad debts	2-(10),(12)	(112)	(75)	(937)
Total assets		66,976	57,805	557,346
Liabilities				
Technical provisions				
Reserve for outstanding claims	2-(25),3-(12)	30,755	28,124	255,933
Unearned premium reserve	2-(25),3-(13)	11,537	10,628	96,007
Catastrophe reserve	2-(17)	14,372	13,701	119,596
Other liabilities	2-(10),(18),3-(14)	3,796	2,198	31,587
Reserve for bonuses	2-(13)	95	85	789
Reserve for directors' retirement benefits	2-(15)	79	104	660
Reserve for losses of reinsurance	2-(16)	-	609	-
Total liabilities		60,634	55,449	504,572
Net assets				
Capital contribution fund		125	130	1,037
Retaining earnings	3-(15)	5,525	1,764	45,977
Net unrealized gains on securities	3-(16)	692	462	5,760
Total net assets		6,342	2,356	52,774
Total liabilities and net assets		¥66,976	¥57,805	\$557,346
				¥120.17=US\$1.00

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

for the years ended 31 March 2015 and 2014

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
			Note 1-(2)
Cash flows from operating activities			
Surplus before income taxes	¥5,227	¥1,337	\$43,493
Depreciation	85	92	704
Increase in reserve for outstanding claims	2,631	1,384	21,892
Increase in unearned premium reserve	909	2,173	7,566
Increase in catastrophe reserve	671	628	5,583
Increase (decrease) in reserve for bad debts	37	(5)	310
Increase in reserve for bonuses	10	7	84
(Decrease) increase in reserve for directors' retirement benefits	(24)	25	(203)
(Decrease) increase in reserve for losses of reinsurance	(609)	53	(5,066)
Interest and dividend income	(799)	(705)	(6,650)
Foreign currency exchange gains	(3,944)	(2,012)	(32,816)
Gains on specified money trust	(459)	(225)	(3,820)
Gains on securities	(17)	(167)	(144)
Losses on property, plant and equipment	0	0	1
(Increase) decrease in other assets	(1,281)	270	(10,659)
Increase in other liabilities	430	348	3,582
Sub-total	2,867	3,203	23,857
Interest and dividends received	797	736	6,635
Income taxes paid	(427)	(498)	(3,556)
Net cash provided by operating activities	3,237	3,441	26,936
Cash flows from investing activities			
Purchases of property, plant and equipment	(7)	(33)	(55)
Purchases of intangible assets	(4)	(62)	(29)
Purchases of time deposits	(3,210)	(2,988)	(26,715)
Proceeds from maturity of time deposits	3,223	2,063	26,818
Purchases of specified money trust	(1,000)	(200)	(8,322)
Purchases of securities	(2,515)	(6,814)	(20,928)
Proceeds from sales or maturity of securities	3,066	6,930	25,516
Net cash used in investing activities	(447)	(1,104)	(3,715)
Cash flows from financing activities			
Proceeds from members of capital contribution fund	4	5	33
Refund to members of capital contribution fund	(12)	(14)	(100)
Net cash used in financing activities	(8)	(9)	(67)
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,362	1,075	11,332
Net increase in cash and cash equivalents	4,144	3,403	34,486
Cash and cash equivalents at beginning of year	17,725	14,322	147,500
Cash and cash equivalents at end of year	¥21,869	¥17,725	\$181,986
			¥120.17=US\$1.00

Notes

2-(26)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

1. Basis of Presentation

(1) In accordance with the Insurance Business Act, the financial year for an insurance company in Japan is from 1 April to 31 March. The financial year of the Japan Ship Owners' Mutual Protection & Indemnity Association (the "Association") conforms with this requirement. The accompanying financial statements have been prepared from the financial statements disclosed for domestic reporting purposes by the Association in accordance with the provisions of Japanese Companies Act, the Ship Owners' Mutual Insurance Association Law of Japan, and related regulations which are different in certain respects with regards to application and disclosure requirements of International Financial Reporting Standards. The supplementary schedules required by the above-mentioned laws in Japan are omitted. However, the statement of cash flows, though not required, is voluntarily disclosed to provide information to readers. The statement of cash flows has been prepared based on "Standard of preparing the Consolidated Statement of Cash Flows, etc. (Japanese Business Accounting Council statement, 13 March 1998)" and "Practical Guideline in Preparing the Statement of Cash Flows for the Consolidated Financial Statements, etc. (Accounting Practice Committee No.8, 12 January 2011)". For the convenience of readers outside of Japan, certain reclassifications have been made in the accompanying financial statements. Amounts of less than one million yen and one thousand dollars are rounded.

(2) Translation to U.S. Dollars

The accompanying financial statements are expressed in Japanese Yen and, solely for the convenience of readers, the statements for the year ended 31 March 2015 have been translated into U.S. Dollars at the rate of ¥120.17 = U.S.\$1, the middle rate prevailing on the Tokyo foreign exchange market on 31 March 2015. The functional currency of the Association is Japanese Yen, and the translation to the US Dollars is only for the convenience of readers.

2. Notes prescribed by the laws and regulations

(1) For foreign currency bonds, the Association records unrealized foreign exchange gains and losses with respect to the amortized cost denominated in foreign currency to the income and expenditure account in each respective period.

(2) For the years ended 31 March 2015 and 2014, the aggregate revenue of business transacted with the subsidiary companies amounted to ¥36 million (\$302 thousand) and ¥30 million, respectively, and the aggregate expenses amounted to ¥46 million (\$383 thousand) and ¥38 million, respectively.

(3) 1. Net premiums written consist of the following:

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
Calls and premiums written	¥28,919	¥26,641	\$240,652
Reinsurance premiums ceded	6,640	5,791	55,257
Net premiums written	<u>¥22,279</u>	<u>¥20,850</u>	<u>\$185,395</u>

2. Net claims paid consist of the following:

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
Claims paid	¥22,543	¥19,311	\$187,595
Reinsurance claims recovered	6,471	3,348	53,852
Net claims paid	<u>¥16,072</u>	<u>¥15,963</u>	<u>\$133,743</u>

3. Change in reserve for outstanding claims consists of the following:

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
Change in reserve for outstanding claims, gross of reinsurance	¥1,393	¥5,728	\$11,589
Change in reserve for ceded outstanding claims	(1,238)	4,344	(10,303)
Change in reserve for outstanding claims	<u>¥2,631</u>	<u>¥1,384</u>	<u>\$21,892</u>

4. Change in unearned premium reserve consists of the following:

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
Change in unearned premium reserve, gross of reinsurance	¥909	¥2,173	\$7,566
Change in ceded unearned premium reserve	—	—	—
Change in unearned premium reserve	<u>¥909</u>	<u>¥2,173</u>	<u>\$7,566</u>

5. Operating expenses consist of the following:

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
Personnel expenditure	¥1,507	¥1,482	\$12,543
Cost of supplies	678	640	5,645
Brokerage	391	330	3,254
Reinsurance commission	(222)	(200)	(1,849)
Depreciation	85	92	704
Total	<u>¥2,439</u>	<u>¥2,344</u>	<u>\$20,297</u>

6. Interest and dividends income consist of the following:

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
Interest on deposits and savings	¥54	¥43	\$451
Interest on securities	745	662	6,199
Total	¥799	¥705	\$6,650

7. For the years ended 31 March 2015 and 2014, valuation gains of ¥459 million (\$3,820 thousand) and ¥225 million are included in "Gains on money trusts", respectively.

(4) A reconciliation between the effective statutory tax rate and the actual effective tax rate after application of deferred tax accounting for the year ended 31 March 2015 is as follows:

Effective statutory tax rate	27.93%
Entertainment and other expenses not deductible for tax purposes	0.12%
Taxation on per capita basis	0.03%
Others	△ 0.03%
Actual effective tax rate	28.05%

A reconciliation between the effective statutory tax rate and the actual effective tax rate after application of deferred tax accounting for the year ended 31 March 2014 is as follows:

Effective statutory tax rate	29.70%
Entertainment and other expenses not deductible for tax purposes	0.60%
Taxation on per capita basis	0.11%
Reduction of deferred tax assets at the balance sheet date caused by change in income taxes rate	1.28%
Others	0.23%
Actual effective tax rate	31.92%

(5) For the years ended 31 March 2015 and 2014, a beginning unappropriated surplus balance available for dividend distribution after transferring ¥910 million (\$7,573 thousand) and ¥200 million, respectively, to special reserves from the previous year's ending unappropriated surplus balance of ¥919 million (\$7,648 thousand) and ¥209 million, respectively are ¥9 million (\$76 thousand) and ¥9 million, respectively.

The amount of ¥3,760 million (\$31,289 thousand) out of ¥3,770 million (\$31,370 thousand) of unappropriated surplus as of 31 March 2015 has been transferred to special reserves during July 2015.

(6) The standards for valuation of securities are as follows:

- Shares of subsidiaries are stated at cost pursuant to the moving average method.
- Securities held to maturity are stated at amortized cost (straight line method) pursuant to the moving average method.

3. Marketable securities held as available for sale are stated at market price as of the balance sheet date. The unrealized gains/losses on the marketable securities are recognized directly within "Net assets" and the cost of securities sold is pursuant to the moving average method.

4. Non-marketable securities held as available for sale are stated at cost or amortized cost (straight line method) pursuant to the moving average method where the fair value is extremely difficult to determine.

(7) Money trusts held for trading purposes are stated at the fair value.

(8) Depreciation of property, plant and equipment is calculated using the declining-balance method.

(9) The Association records software for internal use as an intangible asset. Depreciation on such assets is calculated using the straight line method based on an estimated useful life of 5 years.

(10) Conditions of financial instruments and fair values are as follows:

① Conditions of financial instruments

The Association's investments policy is in accordance with its Business Operations Plan, as approved by the Financial Service Agency, and gives higher priority to investments which are considered stable. Financial instruments the Association holds are mainly cash and deposits at banks, money trusts, Japanese government bonds, Japanese local government bonds, corporate bonds and foreign securities. Holding these financial instruments exposes the Association to credit risk, foreign currency exchange risk, liquidity risk and other market risk factors. As for exposure to credit risk, investments in corporate bonds (including foreign securities) are limited to those with ratings of "A" or higher in principle. If an investment's rating is downgraded below "A", the Association would likely sell the investment after timely research of the issuer's financial condition.

The Association's exposure to foreign exchange risk exists mainly in holding foreign currency denominated bonds. Some foreign currency cash deposits are also held by the Association. Conversely, certain outstanding claim liabilities are denominated in foreign currencies which are also impacted by foreign currency exchange fluctuations. As such, the Association manages its exposure to fluctuations in foreign currency exchange rates by actively managing the proportion of the amounts of foreign assets and liabilities that it holds. As to liquidity risk, the Association considers its exposure to be low as most securities held would be expected to be readily sold in the open market when necessary. Regarding other market risk factors, as the Association mainly invests in bonds with high credit ratings and generally holds them until their maturity date, the Association considers the possibility that other market risks would have a significant impact on the Income and Expenditure Accounts to be remote.

Regarding premiums receivables, although there is a risk of uncollectible accounts, the Association's Underwriting Department strives to collect outstanding premiums in a timely manner and the section in charge in the head office

continuously monitors the status of outstanding premiums receivable.

② Fair value of financial instruments

The amounts recorded in the balance sheet, fair value and the difference as of 31 March 2015 are as follows:

Unit : JPY Millions			
	Amounts of Balance sheet	Fair value	Difference
(1) Cash and deposits at banks	¥17,900	¥17,900	¥-
(2) Money trusts	2,782	2,782	-
(3) Securities			
Securities held to maturity	11,872	12,509	637
Marketable securities held as available for sale	26,231	26,231	-
(4) Premiums receivables	1,142		
Reserve for bad debts (*1)	△ 112		
	1,030	1,030	-
Total financial assets	¥59,815	¥60,452	¥637
(1) Foreign reinsurance payable	¥1,179	¥1,179	¥-
Total financial liabilities	¥1,179	¥1,179	¥-

Unit : US\$000s			
	Amounts of Balance sheet	Fair value	Difference
(1) Cash and deposits at banks	\$148,953	\$148,953	\$-
(2) Money trusts	23,154	23,154	-
(3) Securities			
Securities held to maturity	98,789	104,094	5,305
Marketable securities held as available for sale	218,284	218,284	-
(4) Premiums receivables	9,501		
Reserve for bad debts (*1)	△ 937		
	8,564	8,564	-
Total financial assets	\$497,744	\$503,049	\$5,305
(1) Foreign reinsurance payable	\$9,814	\$9,814	\$-
Total financial liabilities	\$9,814	\$9,814	\$-

(*1) Net of general and individual reserve for bad debts on premium receivables

(Note 1)

Assets

- (1) Cash and deposits at banks, (4) Premiums receivables
Cash and deposits at banks and premiums receivables are stated at the carrying amount as these are settled in the short term and those fair values are approximately equal to the carrying amount.
- (2) Money trusts
The fair value of money trusts individually managed primarily for investments in securities are stated at the price provided by the trustee bank.

(3) Securities

Bonds and investment funds are mainly stated at the price presented by the financial institution. Certificate of deposit is stated at the carrying amount as this is settled in the short term and its fair value is considered to approximate the carrying amount.

Liabilities

(1) Foreign reinsurance payables

Foreign reinsurance payables are stated at the carrying amount as these are settled in the short term and their fair values are approximately equal to the carrying amount.

(Note 2)

Unlisted stocks of ¥1,211 million (\$10,081 thousand) are excluded from (3) "Marketable securities held as available for sale" as no market prices exist and future cash flows are not estimable and therefore it is extremely difficult to determine the fair value.

The amounts recorded in the balance sheet, fair value and the difference as of 31 March 2014 are as follows:

Unit : JPY Millions			
	Amounts of Balance sheet	Fair value	Difference
(1) Cash and deposits at banks	¥16,047	¥16,047	¥-
(2) Money trusts	1,323	1,323	-
(3) Securities			
Securities held to maturity	10,722	10,766	44
Marketable securities held as available for sale	22,772	22,772	-
(4) Premiums receivables	682		
Reserve for bad debts (*1)	△ 75		
	607	607	-
Total financial assets	¥51,471	¥51,515	¥44
(1) Foreign reinsurance payable	¥1,204	¥1,204	¥-
Total financial liabilities	¥1,204	¥1,204	¥-

(*1) Net of general and individual reserve for bad debts on premium receivables

(Note 1)

Assets

- (1) Cash and deposits at banks, (4) Premiums receivables
Cash and deposits at banks and premiums receivables are stated at the carrying amount as these are settled in the short term and those fair values are approximately equal to the carrying amount.
- (2) Money trusts
The fair value of money trusts individually managed primarily for investments in securities are stated at the price provided by the trustee bank.

(3) Securities

Bonds and investment funds are mainly stated at the price presented by the financial institution. Certificate of deposit is stated at the carrying amount as this is settled in the short term and its fair value is considered to approximate the carrying amount.

Liabilities

(1) Foreign reinsurance payables

Foreign reinsurance payables are stated at the carrying amount as these are settled in the short term and their fair values are approximately equal to the carrying amount.

(Note 2)

Unlisted stocks of ¥1,211 million are excluded from (3) "Marketable securities held as available for sale" as no market prices exist and future cash flows are not estimable and therefore it is extremely difficult to determine the fair value.

(11) The translation of foreign currencies to Japanese yen is carried out pursuant to the Accounting Standards for Foreign Currency Transactions.

(12) A reserve for bad debts is estimated on the basis of past experience.

(13) A reserve for bonuses is provided for at the amount estimated at the balance sheet date for future payments.

(14) A reserve for retirement benefits is stated at the amount which would become liable to be paid should all of the staff employment contracts be voluntarily terminated at the balance sheet date after deduction of the fair value of the funded plan assets and the unamortized net transition liabilities. At 31 March 2015 and 2014, prepaid pension cost of ¥88 million (\$730 thousand) and ¥51 million are included in Other assets, respectively.

(15) A reserve for directors' retirement benefit is stated at the amount which has been incurred at the balance sheet date based on the bylaws of the Association.

(16) For the year ended 31 March 2014, to provide for losses arising from providing support to Hydra Insurance Company Ltd. ("Hydra"), which is a reinsurance company in Bermuda jointly established by the International Group of P&I Clubs, a reserve for losses of reinsurance was recorded for the amount equivalent to cumulative losses of the reinsurance company attributable to the Association. For the year ended 31 March 2015, the cumulative losses of Hydra attributable to the Association are cleared and the Association reversed a reserve for losses of reinsurance.

(17) A catastrophe reserve is established to ensure the continued solvency of the insurer in case of catastrophic losses beyond the scope of the insurer's general reserve assumptions and is accumulated over time based on the premiums written for each year. If the gross claims paid for a year exceed 80 percent of net premiums written of the year, the insurer may reverse a portion of the catastrophe reserve equal to the excess amount.

(18) For the year ended 31 March 2014, financial leases, except for those in which ownership is considered to be transferred, for which the commencement date of the lease transaction falls in the financial years that began before 1 April 2008, are accounted for using a method similar to that for ordinary operating lease contracts.

(19) Consumption taxes are accounted for under the "tax inclusive" method.

(20) Accumulated depreciation for property, plant and equipment amounts to ¥358 million (\$2,975 thousand) and ¥340 million at 31 March 2015 and 2014, respectively. Advanced depreciation amounts to ¥417 million (\$3,470 thousand) and ¥415 million at 31 March 2015 and 2014, respectively.

(21) At 31 March 2015, the total of deferred tax assets amounts to ¥3,780 million (\$31,459 thousand) and the total of deferred tax liabilities amounts to ¥310 million (\$2,576 thousand). The figure deducted from deferred tax assets as a valuation reserve amounts to ¥552 million (\$4,590 thousand).

The components of deferred tax assets by main cause of occurrence are as follows:

Underwriting reserve; ¥2,639 million (\$21,958 thousand)
Reserve for outstanding claims; ¥428 million (\$3,563 thousand)

Business tax; ¥57 million (\$470 thousand)

Special local corporation tax; ¥43 million (\$359 thousand)

The components of deferred tax liabilities by main cause of occurrence are as follows:

Unrealized gains on "Marketable securities held as available for sale"; ¥285 million (\$2,372 thousand)

At 31 March 2014, the total of deferred tax assets amounts to ¥3,652 million and the total of deferred tax liabilities amounts to ¥227 million. The figure deducted from deferred tax assets as a valuation reserve amounts to ¥562 million.

The components of deferred tax assets by main cause of occurrence are as follows:

Underwriting reserve; ¥2,628 million

Reserve for outstanding claims; ¥200 million

Reserve for losses of reinsurance; ¥170 million

Reserve for directors' retirement benefits; ¥29 million

The components of deferred tax liabilities by main cause of occurrence are as follows:

Unrealized gains on "Marketable securities held as available for sale"; ¥213 million

(22) For the year ended 31 March 2014, "Act on Partial Amendment to the income tax law" (Act No.10, 2014) was promulgated on 31 March 2014 and the special corporation tax law for restoration has been repealed from the fiscal year beginning on or after 1 April 2014.

As a result of this change in applicable tax law, the effective statutory income tax rate used to calculate deferred tax assets and deferred tax liabilities on the temporary differences which are expected to reverse in the fiscal year beginning on 1 April 2014 changes from the 29.70%, used previously, to 27.93%.

As a result of this change in the corporate income tax rate, deferred tax assets (net of deferred tax liabilities) decreased by ¥16 million, net unrealized gains on securities increased

by ¥0 million and surplus after income taxes decreased by ¥17 million.

(23) In addition to the property, plant and equipment recorded on the balance sheet, lease contracts are in place for electronic computers.

(24) Investment in subsidiaries amounts to ¥12 million (\$96 thousand) and ¥12 million at 31 March 2015 and 2014, respectively.

(25) 1. Reserve for outstanding claims with respect to reinsurance stipulated in Article 51 of the Enforcement Regulations of the Ship Owners' Mutual Insurance Association Law of Japan (the "Regulations") which is referred in Article 53.2 of the Regulations amounts to ¥10,970 million (\$91,283 thousand) and ¥12,208 million at 31 March 2015 and 2014, respectively.

2. There is no unearned premium reserve with respect to reinsurance stipulated in Article 51 of the Regulations at 31 March 2015 and 2014.

3. There is no amount deducted relating to the distribution of surplus stipulated in Article 28 of the Regulations at 31 March 2015 and 2014.

(26) Cash equivalents in the statement of cash flows are cash in hand, deposits at banks which can be withdrawn at any time and highly liquid short-term investments with an original maturity of three months or less, and are subject to insignificant risk of changes in value.

The reconciliation of cash and cash equivalents on the statement of cash flows to cash and deposits at banks on the balance sheet is as follows:

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
Cash and deposits at banks	¥17,900	¥16,047	\$148,953
MMF, Short-term government bonds and Certificate of deposit included in securities	5,500	3,000	45,767
Deposits at banks of which contract is more than 3 months	(1,531)	(1,322)	(12,734)
Cash and cash equivalents	<u>¥21,869</u>	<u>¥17,725</u>	<u>\$181,986</u>

There were no significant non-cash transactions entered into by the Association during the years ended 31 March 2015 and 2014.

Cash flows from investing activities include cash flows arising from asset management relating to the insurance business during the years ended 31 March 2015 and 2014.



3. Other Notes to Financial Statements

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
(1) Calls and premiums written			
Mutual			
Mutual premiums	¥17,791	¥17,007	\$148,046
Supplementary calls charged	7,227	6,031	60,141
Release calls	468	363	3,898
FD&D	180	168	1,496
Sub-total	25,666	23,569	213,581
Fixed premiums			
Coastal vessels entries	2,207	2,249	18,367
Charterers' entries	888	684	7,388
US oil pollution premiums	0	2	4
Others	158	137	1,312
Sub-total	3,253	3,072	27,071
Total	¥28,919	¥26,641	\$240,652
(2) Reinsurance premiums ceded			
Group excess of loss	¥3,220	¥2,579	\$26,800
Others	3,420	3,212	28,457
	¥6,640	¥5,791	\$55,257
(3) Interest and dividends			
Bank deposits	¥54	¥43	\$451
Japanese bonds	232	222	1,927
Foreign securities	485	422	4,034
Other securities	28	18	238
	¥799	¥705	\$6,650
(4) Claims paid			
P & I	¥18,993	¥15,759	\$158,050
Mutual	16,412	13,524	136,567
Coastal vessels entries	1,859	1,556	15,472
Charterers' entries	714	585	5,944
Others	8	94	67
Other Associations' pool claims	3,428	3,373	28,526
FD & D	122	179	1,019
	¥22,543	¥19,311	\$187,595
(5) Reinsurance claims recovered			
Group's pooling agreement	¥6,161	¥2,773	\$51,272
Group's excess loss reinsurance	-	0	-
Other reinsurers	310	575	2,580
	¥6,471	¥3,348	\$53,852

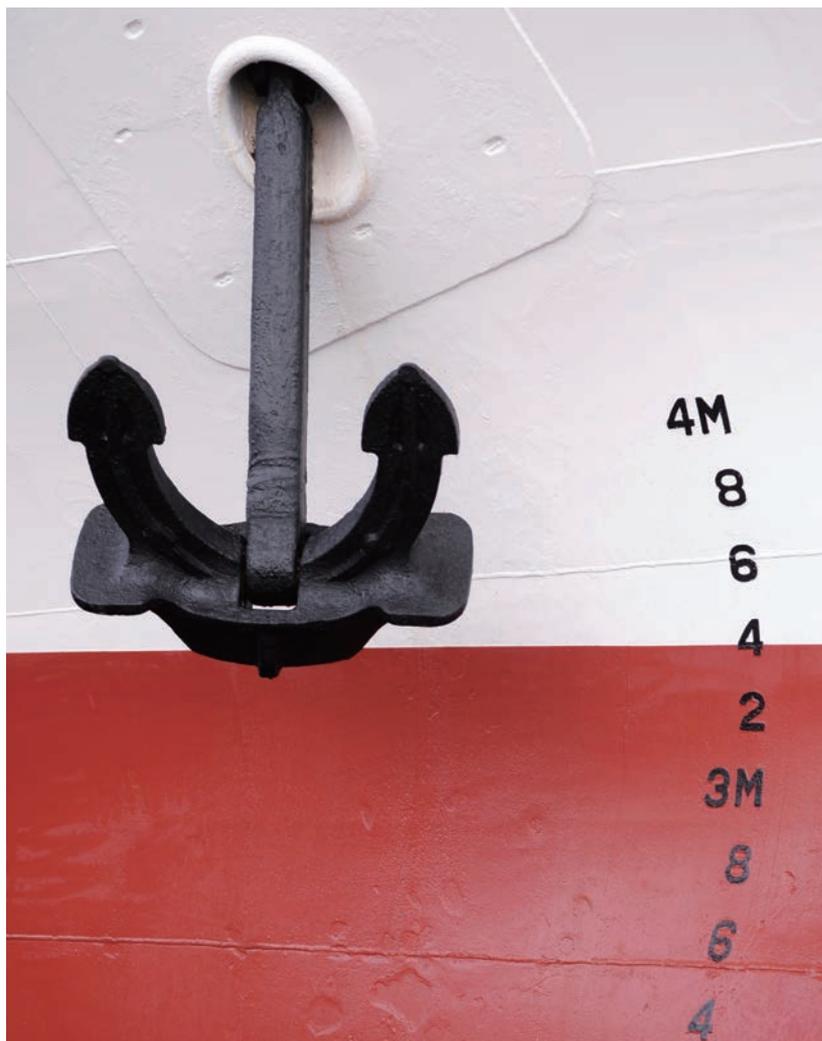
	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
(6) Cash and deposits at banks			
Cash	¥1	¥2	\$11
Deposits at banks	17,899	16,045	148,942
	¥17,900	¥16,047	\$148,953
(7) Money trusts			
Funds of domestic stock	¥1,769	¥1,323	\$14,720
Funds of foreign security	1,013	-	8,434
	¥2,782	¥1,323	\$23,154
(8) Securities			
Japanese government bonds	¥720	¥718	\$5,993
Japanese local government bonds	3,166	3,275	26,344
Corporate bonds	9,379	8,886	78,046
Stocks	10	10	83
Foreign securities	19,141	17,714	159,283
Other securities	6,898	4,102	57,405
	¥39,314	¥34,705	\$327,154
(9) Property, plant and equipment			
Estate on book	¥990	¥990	\$8,234
Buildings	67	74	559
Lease assets	5	7	40
Equipment and others	32	48	270
	¥1,094	¥1,119	\$9,103
(10) Intangible assets			
Software	¥132	¥182	\$1,100
Other intangible assets	4	4	33
	¥136	¥186	\$1,133
(11) Other assets			
Premiums receivables	¥1,142	¥682	\$9,501
Foreign reinsurance recoveries	1,281	563	10,664
<i>Pool recoveries</i>	<i>942</i>	<i>281</i>	<i>7,842</i>
<i>Recoveries from other reinsurers</i>	<i>339</i>	<i>282</i>	<i>2,822</i>
Accounts receivable	41	41	339
Accrued revenue	186	170	1,546
Advance deposits	103	94	858
Suspense payments	102	36	855
Prepaid pension cost	88	51	730
	¥2,943	¥1,637	\$24,493

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
(12) Reserve for outstanding claims			
Gross reserve for outstanding claims	¥41,725	¥40,331	\$347,216
<i>Members' claims</i>	35,019	34,693	291,416
<i>Other Associations' pool claims</i>	6,706	5,638	55,800
Reinsurers' share	10,970	12,207	91,283
<i>Pool recoveries</i>	9,833	11,187	81,825
<i>Excess loss R/I recoveries</i>	-	-	-
<i>Recoveries from other reinsurers</i>	1,137	1,020	9,458
Net reserve for outstanding claims	¥30,755	¥28,124	\$255,933
<i>IBNR amounts are included in the above figure IBNR amounts</i>	¥7,640	¥4,927	\$63,580
(13) Unearned premium reserve			
Gross unearned premium reserve	¥11,537	¥10,628	\$96,007
Reinsurers' share	-	-	-
Net unearned premium reserve	¥11,537	¥10,628	\$96,007
(14) Other liabilities			
Foreign reinsurance payable	¥1,180	¥1,204	\$9,814
Accounts payable	191	110	1,592
Unpaid tax	1,438	269	11,967
Suspense payable	982	608	8,174
Lease liability	5	7	40
	¥3,796	¥2,198	\$31,587
(15) Retaining earnings			
Reserve for offsetting losses	¥175	¥175	\$1,458
Other retaining earnings	5,350	1,589	44,519
<i>Special reserve</i>	1,580	670	13,148
<i>Unappropriated surplus</i>	3,770	919	31,371
	¥5,525	¥1,764	\$45,977
(16) Net unrealized gains on securities			
Unrealized gains on securities is net of deferred tax caused by the valuation of securities.	¥692	¥462	\$5,760

Reserves

	Unit : JPY Millions		Unit : US\$000s
	2015	2014	2015
Catastrophe reserve	¥14,372	¥13,701	\$119,596
Reserve for offsetting losses	175	175	1,458
Other retaining earnings	5,350	1,589	44,519
Sub-total	19,897	15,465	165,573
Capital contribution fund	125	130	1,036
Net unrealized gains on securities	692	462	5,760
Total	¥20,714	¥16,057	\$172,369

The "Sub-total" represents the reserves that have been built up out of surpluses in open and closed years. Please see the "Policy Year Statement" described in pages 28 and 29.



Policy Year Statement

as at 31 March 2015

	2015/16		2014/15		2013/14	
	(2015/2/20-2015/3/31)		(2014/2/20-2015/2/20)		(2013/2/20-2014/2/20)	
	JPY Millions	US\$000s	JPY Millions	US\$000s	JPY Millions	US\$000s
Calls and premiums written						
Prior years	¥-	\$-	¥2,340	\$19,472	¥18,185	\$151,329
During year	2,320	19,302	17,793	148,065	111	924
Supplementary calls	-	-	-	-	7,227	60,141
	2,320	19,302	20,133	167,537	25,523	212,394
Reinsurance premiums ceded	(753)	(6,270)	(6,418)	(53,406)	(5,732)	(47,703)
	1,567	13,032	13,715	114,131	19,791	164,691
Claims paid						
Gross claims paid	(18)	(150)	(4,227)	(35,173)	(11,067)	(92,094)
Reinsurance claims recovered	-	-	32	265	1,586	13,196
[Pool recoveries]	[-]	[-]	[25]	[203]	[1,521]	[12,651]
[Excess loss R/I recoveries]	[-]	[-]	[-]	[-]	[-]	[-]
[Other reinsurance recoveries]	[-]	[-]	[7]	[62]	[65]	[545]
Net claims paid	(18)	(150)	(4,195)	(34,908)	(9,481)	(78,898)
[Other Associations' pool claims]	[-]	[-]	[368]	[3,061]	[976]	[8,124]
Investment income	219	1,826	1,100	9,151	1,292	10,752
Operating expenses	(170)	(1,416)	(2,481)	(20,644)	(2,302)	(19,152)
Others	374	3,114	(260)	(2,160)	1,034	8,602
Balance available for estimated outstanding claims	¥1,972	\$16,406	¥7,879	\$65,570	¥10,334	\$85,995
Estimated outstanding claims						
Gross estimated outstanding claims	¥(1,774)	\$(14,761)	¥(10,512)	\$(87,477)	¥(15,167)	\$(126,216)
Reinsurers' share	-	-	799	6,647	7,013	58,362
[Pool recoveries]	[-]	[-]	[556]	[4,621]	[4,244]	[35,315]
[Excess loss R/I recoveries]	[-]	[-]	[-]	[-]	[2,697]	[22,446]
[Other reinsurance recoveries]	[-]	[-]	[243]	[2,026]	[72]	[601]
Net estimated outstanding claims	(1,774)	(14,761)	(9,713)	(80,830)	(8,154)	(67,854)
[Other Associations' pool claims]	[235]	[1,954]	[1,276]	[10,621]	[1,383]	[11,511]
Surplus/(deficit)	¥198	\$1,645	¥(1,834)	\$ (15,260)	¥2,180	\$18,141
Estimated product of 10% supplementary calls	-	-	1,825	15,185	1,763	14,675

1. The estimated outstanding claims include provision for incurred but not reported claims (IBNR's).

2. Calls and premiums written, claims paid and estimated outstanding claims are allocated to the policy years to which they relate.

All other amounts, such as "Investment income" and "Operating expenses" are allocated to policy years in a systematic and reasonable manner.

3. For the 2015/16 policy year which is covered the period from 20 February 2015 to 31 March 2015, calls and premiums are stated on an earned basis to 31 March 2015.

4. The translation rate in this Policy Year Statement is ¥120.17 = US\$1, the middle rate prevailing on the Tokyo foreign exchange market as of 31 March 2015.

2012/13 (2012/2/20-2013/2/20)		Closed years		Total	
JPY Millions	US\$000s	JPY Millions	US\$000s	JPY Millions	US\$000s
¥15,551	\$129,408				
35	295				
6,031	50,188				
21,617	179,891				
(4,079)	(33,942)				
17,538	145,949				
(16,610)	(138,219)				
4,433	36,892				
[3,365]	[27,998]				
[1,068]	[8,891]				
[0]	[3]				
(12,177)	(101,327)				
[1,318]	[10,966]				
723	6,013				
(2,024)	(16,844)				
1,569	13,053				
¥5,629	\$46,844	¥24,838	\$206,691	¥50,652	\$421,506
¥(3,669)	\$(30,528)	¥(10,602)	\$(88,234)	¥(41,724)	\$(347,216)
340	2,829	2,817	23,445	10,969	91,283
[289]	[2,400]	[1,997]	[16,614]	[7,086]	[58,950]
[51]	[429]	[-]	[-]	[2,748]	[22,875]
[-]	[-]	[820]	[6,831]	[1,135]	[9,458]
(3,329)	(27,699)	(7,785)	(64,789)	(30,755)	(255,933)
[1,508]	[12,546]	[2,303]	[19,167]	[6,705]	[55,799]
¥2,300	\$19,145	¥17,053	\$141,902	¥19,897	\$165,573
1,632	13,580				

Directors and Auditors

DIRECTORS

Chairman, Representing Director	Junichiro Ikeda	President	Mitsui O.S.K. Lines, Ltd.
Deputy Chairman, Representing Director	Tadaaki Naito	President	Nippon Yusen Kabushiki Kaisha
Deputy Chairman, Representing Director	Eizo Murakami	President	Kawasaki Kisen Kaisha, Ltd.
Directors	Masakazu Yakushiji	President	Daiichi Chuo Kisen Kaisha
	Atsushi Igaki	President	Ferry Sunflower Limited
	Takao Ito	President	Hachiuma Steamship Co., Ltd.
	Masaru Iijima	President	Idemitsu Tanker Co., Ltd.
	Tomoyuki Sekine	President	Iino Kaiun Kaisha, Ltd.
	Michiyasu Kobayashi	President	JX Ocean Co., Ltd.
	Kazuo Hayashida	President	Kyoei Tanker Co., Ltd.
	Hiroyuki Nakamura	President	Mitsubishi Ore Transport Co., Ltd.
	Toru Obata	President	NS United Kaiun Kaisha, Ltd.
	Yoichiro Seno	President	Seno Kisen Co., Ltd.
	Yukito Higaki	President	Shoei Kisen Kaisha, Ltd.
	Shiro Adachi	President	Mitsui O.S.K. Kinkai, Ltd.
	Norio Tabuchi	President	Tabuchi Kaiun Co., Ltd.
	Hisashi Yasui	President	Taiyo Nippon Kisen Co., Ltd.
	Nobuo Sano	President	Tamai Steamship Co., Ltd.
	Tsuneo Watanabe	Managing Director	Tokyo Marine Asia Pte Ltd
	Takashi Uyeno	President & CEO	Uyeno Transtech Ltd.

IN-HOUSE DIRECTORS

Director General, Representing Director	Yoshikazu Minagawa
Executive Directors, Representing Directors	Akihisa Kobayashi
	Nakaji Ohsumi
	Tsutomu Kawakami
	Masaru Ogawa
Directors	Nobuo Sato
	Hiroaki Sawabe

AUDITORS

	Shigenori Ishii	President	Kawasaki Kinkai Kisen Kaisha, Ltd.
	Hiroki Kasai	President	MOL Ocean Expert Co., Ltd.
	Shunsuke Tsurumaru	President	Tsurumaru Shipping Co., Ltd.

(Note: Names listed above are as at 13 July 2015)

Planning Department	Tsutomu Kawakami, General Manager
Human Resources & General Affairs Department	Nobuo Sato, General Manager
Investment Management and Accounting Department	Hiroaki Akasaka, General Manager
IG & Reinsurance Department	Royston Deitch, General Manager
	Takaaki Irikiin, General Manger
Underwriting Administration Department	Masaru Ogawa, General Manager
	Takaaki Irikiin, General Manager
Tokyo Underwriting Department	Naoyuki Moriya, General Manager
	Noriyuki Take, General Manager
Claims Department	Hiroaki Sawabe, General Manager
Loss Prevention and Ship Inspection Department	Takuzo Okada, General Manager
Information Systems Department	Tetsuo Ishii, General Manager
Internal Audit Division	Toshiya Habu, Chief of Division



Standing left to right : T. Habu, H. Akasaka, T. Ishii, N. Sato, H. Sawabe, T. Okada, T. Irikiin, N. Take
 Seated left to right : T. Kawakami, N. Ohsumi, A. Kobayashi, M. Ogawa,

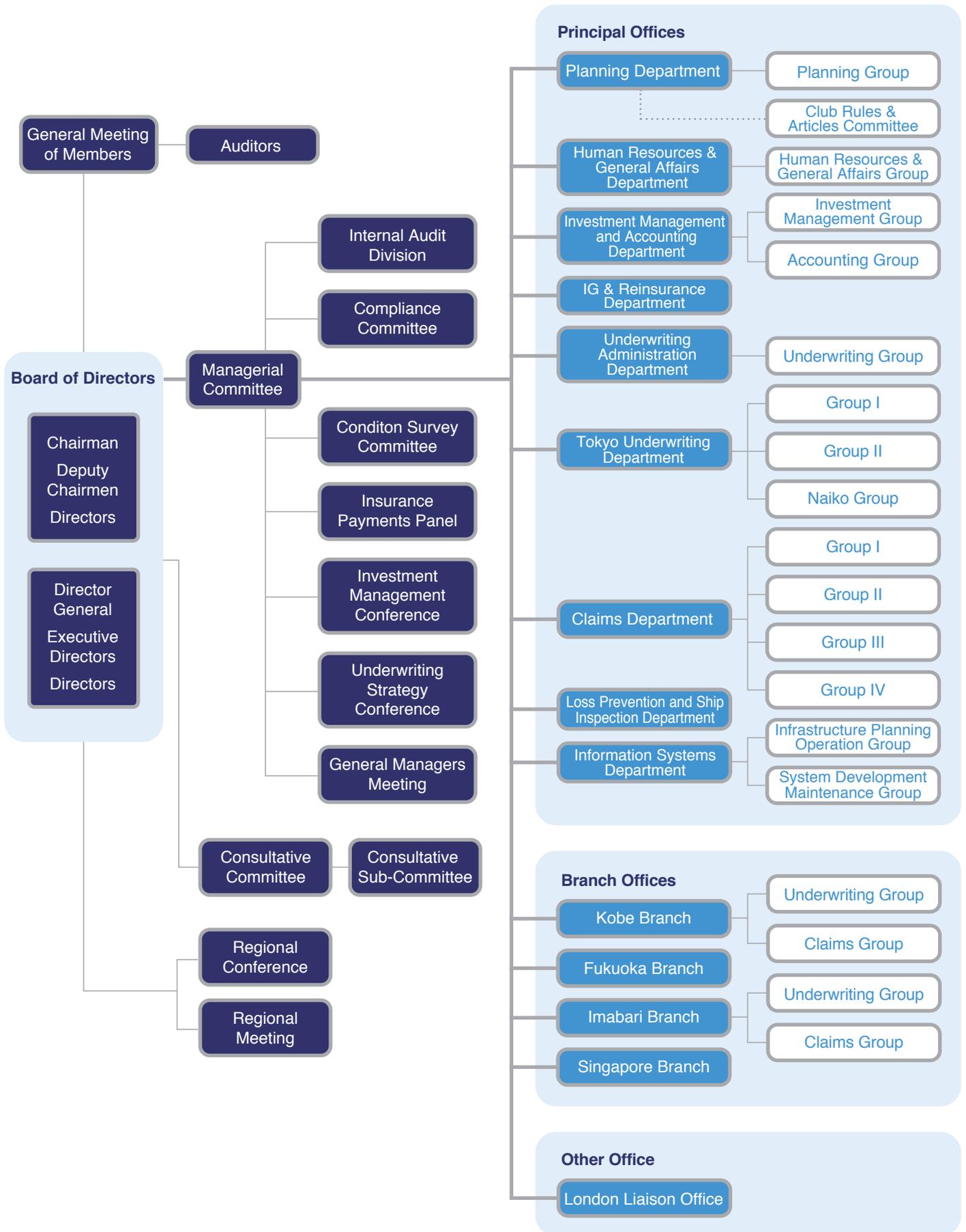


N. Moriya



R. Deitch

Organisation of the Association



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Group II	+81 3 3662 7221
Group III	+81 3 3662 7222
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Tokyo Underwriting Dept.	+81 3 3662 7225
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Group II, III, IV	+81 3 3662 7400
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Loss Prevention and Ship Inspection Dept.	lossprevention-dpt@piclub.or.jp

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The Japan Ship Owners' Mutual Protection & Indemnity Association